

GUIDE TO THE BUDGET: *What is the Budget?*

WHAT IS THE BUDGET?

The Budget sets forth a strategic resource allocation plan that is distinctly aligned with community goals, preferences, and needs. The Budget is a policy document, financial plan, operations guide, and communication device all in one.

The Budget also

- ▶ determines the quality and quantity of city programs and services;
- ▶ states expenditure requirements for the allocation plan and the estimated available revenues to finance it;
- ▶ sets targets and provides a means of measuring accomplishments against goals, actual versus planned outcomes;
- ▶ serves as a communication device—for elected officials, the public, and the city organization—that promotes the City's vision and direction, fiscal health and vitality, and what the public is getting for its tax dollars.

Through the Budget document, the City demonstrates its accountability to its residents, customers, and citizens-at-large.

THE RELATIONSHIP BETWEEN THE OPERATING BUDGET AND THE CAPITAL IMPROVEMENT PROGRAM

The Budget Document comprises both the *Annual Operating Budget* and the *Capital Budget*. The development of the two budgets, however, takes place on two separate, albeit interrelated, tracks (see the Budget Development Process Timeline).

The Operating Budget is the complete budget used to finance all the day-to-day operations and obligations of the City. The budget includes general government administration and operations, debt service, capital expenditures, and transfer payments for a particular fiscal year. The funding for this budget is derived from taxes, fees, licenses, fines, and inter-governmental revenues (state and federal).

The Capital Improvement Program (CIP) is a multi-year planning instrument that drives the identification, evaluation, and financing of capital infrastructure projects that are in need of renovation, repair and/or construction. Capital projects range from road maintenance or construction to the renovation of municipal buildings, recreation centers and ball fields, to water main and sewerage system replacement. The CIP relates these capital project needs to the financial sources that will support their realization and the timeframe in which both the financing and work will take place. Capital improvement projects typically carry considerable future impact, meaning, they have a life span of at least five years or more. They are usually—but not always—financed over a longer period of time, in effect spreading the cost of the project across generations of users.

For this reason, a separate Capital Improvement Program document is produced that is designed to communicate to elected officials, city staff and the public the capital planning and management strategies of the City.

GUIDE TO THE BUDGET: *How is the Budget Developed?*

BACKGROUND

The City of Riverside's fiscal year begins each July 1 and concludes on June 30. In accordance with fundamental democratic principles, the City embraces the notion and practice of citizen participation, especially in key planning and resource allocation activities. Therefore, the development of the budget process begins early in the prior fiscal year to ensure adequate planning and community input into that planning. Modes of community input especially important to the budget development process are the Community Visioning and Strategic Planning processes. In addition, departments obtain citizen input through Boards and Commission meetings, the City of Riverside's Annual Citizen Survey, Mayor's Night Out forums, public hearings, and other forms of written and oral communication.

The development of the Strategic Budget FY 2003/04 is comprised of three distinct phases.

- Phase One: Strategic Planning and Program Assessment
- Phase Two: Budget Directive and Departmental Submittal
- Phase Three: Budget Preparation and Adoption

Phase One represents the planning and assessment phase. Departments focus on the what, why, how, and how well they deliver individual services. This phase includes both strategic plan development and data gathering, such as performance information. This phase can begin as early as the start of the fiscal year. Phase Two consists of the City Manager's Budget Policy Directive and Departmental Budget Submittal, and runs from mid- December through early March. Phase Three covers the period when the Preliminary Budget is prepared and presented to City Council through Budget Adoption.

STRATEGIC PLANNING AND PROGRAM ASSESSMENT

The City has launched a strategic planning process that brings into alignment the community's priorities and needs, City Council goals, and city operations. The City has produced a Citywide Strategic Plan that sets forth goals and actions designed to realize the community vision. The Strategic Plan is then used to build the budget, ensuring effective utilization of city resources.

Program Assessment

Program Assessment is a crucial component of the Strategic Budget Development process. It engages city staff in linking past assumptions and decisions with current issues—before focusing on dollars. Program Assessment is also designed to elicit evaluation of current service delivery efforts, as well as provide baseline and performance information on the services (activities) a department currently provides. Program Assessment is conducted around 5 main themes: the What, Why, How, How Well, and Impact of the program in question.

GUIDE TO THE BUDGET: *How is the Budget Developed?*

Performance Measurement

Of particular significance in the program assessment phase is the evaluation of *how well* the City is performing its services. The budget incorporates performance measures into the development of the budget and into the document itself. Departments set targets that are tied to action plans for improvement. A select group of performance measures used in the budget development process are featured in the Budget Document.

CITY MANAGER BUDGET DIRECTIVE AND BUDGET SUBMITTAL

The City Manager establishes a budget directive based on short- and long-term financial and organizational goals.

Budget Kickoff and Preparation

Budget kickoff begins in mid December at a meeting to which the City Manager, Management and Budget Director and staff, Human Resources Director, Finance Director, and Departmental Budget Coordinators attend. The City Manager briefs the participants on policy directives and general budgeting guidelines. The Management and Budget Director follows with a discussion on the technical and procedural aspects of preparing the budget. The Budget Preparation Manual, distributed to each departmental representative in both hard copy and CD-ROM format, provides the information, forms and instructions necessary to prepare the Budget Submittal in an accurate and timely manner. Departments have approximately two months to prepare their budgets based on the City Manager's Budget Directive and Instructions.

Budget Checkpoint Meeting

The City Manager, Executive Leadership Team (ELT), and Office of Management and Budget (OMB) staff participate in a Budget Checkpoint Meeting in early February. The purpose of the meeting is to provide an opportunity for departments to explore a variety of budgetary issues. For the FY 2003/04 Checkpoint Meeting, Department Heads provided feedback through an OMB-administered questionnaire on how departments could potentially reduce their operating budgets and/or enhance revenue streams.

City Manager Review

The City Manager Review is held between the City Manager, Office of Management and Budget Staff, Department Head, Departmental Budget Coordinator, and the Finance Director. OMB analysts present an overview of the department's proposed budget, including reductions or other significant budgetary changes, performance measures, and performance targets. The aim of the City Manager Review is to finalize decisions regarding departmental budget submittals and to discuss other outstanding issues.

GUIDE TO THE BUDGET: *How is the Budget Developed?*

BUDGET PREPARATION AND ADOPTION

This phase consists of the preparation of the Preliminary Budget through Budget Adoption, and includes the publication of a “Budget-in-Brief” for wider distribution to the general public.

Once the City Manager Reviews have taken place and all departmental budget issues are resolved, the Office of Management and Budget prepares the Preliminary Budget. The Preliminary Budget takes into account any changes agreed upon at the City Manager Reviews and any other City Manager-directed changes.

Budget Presentation to City Council

The City Manager presents the Preliminary Budget to the City Council in a series of workshop sessions through May and June. Although public comment is welcome throughout the workshop sessions, a specially designated Public Hearing is expressly held for public participation in mid June. In mid-to-late June, the City Manager will ask City Council to adopt the Budget with any necessary revisions made between the time of the publication of the Preliminary Budget and the date of adoption.

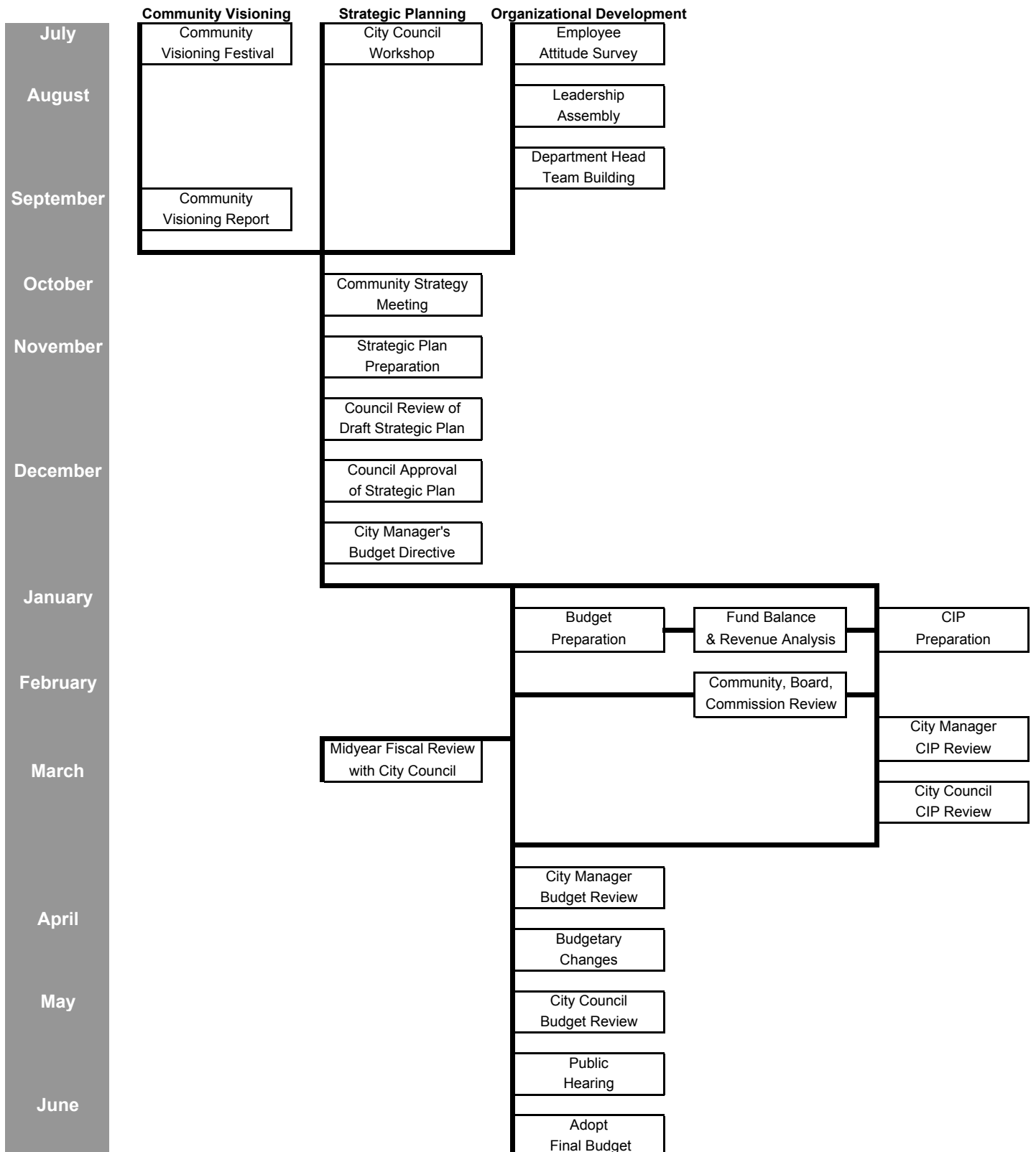
Issuance of Final Budget

The Annual Budget is effective July 1 and the printed document is available as soon as the year-end accounting and final cost allocation plan are completed.

Budget-in-Brief

The Budget sets forth an allocation plan that reflects the City’s priorities and needs. Although the City strives to avoid as much technical language as possible, budget documents can still be rather cumbersome and dense in nature. The Budget-in-Brief is a user-friendly, manageable document for the public and other interested persons to read.

Budget Development Process Timeline FY 2003/04



GUIDE TO THE BUDGET: *How to Read the Budget*

INTRODUCTION

Budgets play a crucial role in communicating to elected officials, city employees, and the public the City's plans for the use of its resources. Yet budgets are complex documents that can be difficult to grasp at first hand. Although the City has made every effort to make the document as easy to navigate as possible, some discussion as to how the book is organized is deemed warranted. This section provides the reader with some basic understanding of the constituent components of a budget document. Additional sections to which the reader should refer are the Fund and Revenue Summary located under the Budget Summaries tab and the Glossary of Terms, which concludes the document.

ORGANIZATION OF THE BUDGET DOCUMENT

The Budget Document is comprised of the following 10 main sections:

- Table of Contents
- City Manager's Budget Message (also known as the Transmittal Letter)
- Strategic Budget Priorities
- City Profile
- Guide to the Budget
- Budget Summaries
- Department Summaries
- Capital Improvement Program Summary
- Personnel Summaries
- Glossary of Terms

City Manager's Budget Message

The City Manager's Budget Message is a transmittal letter addressed to the Mayor and City Council that introduces the FY 2003/04 Budget. The Budget Message outlines the organizing principles of the budget and the assumptions on which the budget was developed (e.g., economy, strategic plan requirements, revenues, and expenditure needs) to accomplish the City's objectives for the year.

The City Manager's Budget Message aims to provide the reader with highlights of the operating and capital budgets and a sufficient context to understand how and why budgetary changes occurred between fiscal years. In achieving these aims, the City Manager's Budget Message includes the following components:

- Introduction
- Community Input
- Economic Outlook
- State Budget
- FY 2003/04 Budget Directive
- Citywide Budget Overview
- Fund Descriptions and Significant Changes
- Future Budget Considerations

GUIDE TO THE BUDGET: *How to Read the Budget*

Strategic Budget Priorities

The City's Budget is expressly shaped by the Community Visioning Process and the Citywide Strategic Plan. In this way, city leadership can be assured it is allocating resources wisely and effectively toward meeting its goals and objectives. This section describes the linkage between the City's Community Visioning and Strategic Planning processes and how the budget supports the realization of the intended outcomes.

City Profile

The City Profile provides a snapshot of the City for which the Budget has been developed. The purpose of this section is to give the reader an at-a-glance look at the City's main assets, including information on tourism, transportation and city heritage, as well as demographic data and basic infrastructure statistics.

Guide to the Budget

The Guide to the Budget allows the reader to understand the purpose of the budget, how the budget is developed, how to read the budget, and the financial and operational policies that undergird the budget development and planning processes on a whole.

Budget Summaries

The Budget Summaries section is the nuts and bolts of the Budget and perhaps the most difficult to navigate. It provides the following information:

- City Fund and Revenue Summary
- "Where the money comes from and where it goes" detail and graphical depiction
- Summary of Estimated Resources and Budget Requirements
- Estimated Revenues by Fund and Source
- Summary of Budget Requirements for FY 2003/04
- Summaries of Selected Funds
- Property Tax Information

Department Summaries

The Department Summaries contain detailed budget information for the basic organizational units of the City, its departments. The departments are presented in alphabetical order. Each departmental summary presents the following information:

- Program Chart. The program chart diagrams the relationships of the divisions, programs, and services comprising a department. The purpose of this chart is to highlight programmatic activities and does not aim to portray reporting relations among staff.
- Description of the Service. The description of the service provides detailed information on the breadth and scope of the department's work.

GUIDE TO THE BUDGET: *How to Read the Budget*

- ▶ Mission Statement. Each department has formulated a mission statement that presents “the what, for whom, and why” the department exists.
- ▶ Strategic Priorities Addressed. This section highlights the specific goals as set forth in the Strategic Plan addressed by the department’s activities.
- ▶ Major 2003/04 Priorities. Major 2003/04 priorities spotlight the objectives the department expects to achieve over the course of the upcoming year.
- ▶ Programs and Program Goals. Departments are comprised of smaller organizational units, programs, which in aggregate allow the department to attain its mission. Program goal statements answer “the what, for whom, and why” the program exists.
- ▶ Performance Measures. Each department has delineated a family of performance measures—input, output, efficiency, service quality and outcome—for assessing progress made toward achieving program goals. These measures are used during the budget process to ascertain program performance, workload and future targets. Departments collect data on selected performance measures for the prior year, make estimations for the current fiscal year, and set targets for the upcoming fiscal year.
- ▶ Recent Accomplishments. This section lists a department’s achievements over the past fiscal year.
- ▶ Budget Summary. This table provides comparative information on budgeted expenditures for three fiscal years organized by the following categories: personnel, non-personnel, special projects, equipment outlay, debt service, capital outlay, and cost allocation charges. Percentage change data between the prior and current fiscal years are also provided.
- ▶ Expenditure Summary. This table displays comparative net or gross expenditure information by departmental program.
- ▶ Personnel Summary. Three years of personnel counts are provided in this section.
- ▶ Program Summary. This section provides graphical depiction of the distribution of expenditures across programs, historical counts of personnel, and historical budget expenditures.
- ▶ Budgetary line-item detail. Each department is represented by line-item budgetary detail for its operations.

Capital Improvement Program Summary

This section looks at the City’s Six-Year Capital Improvement Program, funding sources, project highlights, and the specific projects for which funds are allocated for the fiscal year in question. A more in-depth Capital Improvement Program document is available from the City’s Office of Management and Budget and is featured on the City’s web site.

Personnel Summaries

The Personnel Summaries section includes the titles and job codes of the full-time and part-time positions authorized for each department, as well as the salary costs for each authorized position

GUIDE TO THE BUDGET: *How to Read the Budget*

(note: benefits are not included in this figure). A comparative table that provides three years of data is also presented in this section.

Glossary of Terms

Budgets are not easy to read and may contain terms unfamiliar to the reader. This section attempts to cover the key terms used throughout the Budget Document and in the budgeting process, in general.

ACCOUNTING AND BUDGETARY BASIS

Reading a budget entails an understanding of the fundamental bases upon which the accounting and budgeting is conducted. In the City of Riverside, the *modified accrual basis of accounting* is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government uses 60 days after year end as its availability period. Revenues susceptible to accrual are the property tax and taxpayer-assessed taxes, such as the sales tax, gas tax, transient occupancy tax, franchise taxes, special assessments, licenses, investment income, and charges for services. Expenditures are recorded when the liabilities are incurred except that principal and interest payments on general long-term debt are recognized as expenditures when due.

The *accrual basis of accounting* is utilized by proprietary fund types and pension trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For proprietary type activities, the City has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these contradict or conflict with GASB pronouncements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds (General, Special Revenue, Debt Service and Capital Projects) are accounted for using a current financial resources measurement focus. With this measurement focus only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds (Enterprise and Internal Services) are accounted for with a focus on economic resources measurement. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

GUIDE TO THE BUDGET: *Financial and Operational Policies*

INTRODUCTION

The organizing principles of a city's budget development process are its planning documents, financial and operational policies, and fiscal management tools. These promote and ensure organizational continuity, consistency, transparency, and responsibility across the City's individual units (e.g., departments) and time (e.g., fiscal years).

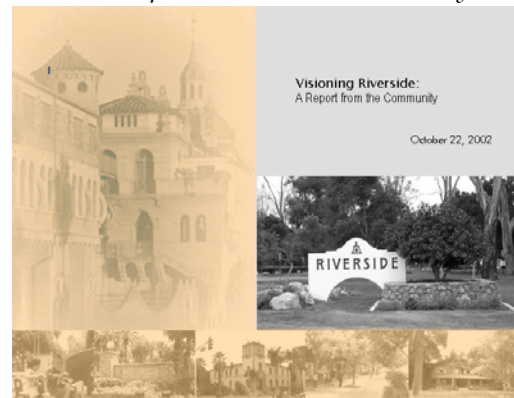
This section identifies some of the major short- and long-term planning documents, financial and operational policies, and fiscal management tools the City of Riverside employs in order to guarantee fiscal and programmatic integrity, and guide the development of the City's Budget.

PLANNING DOCUMENTS: Community Visioning, Strategic Planning, and the General Plan

The City's key planning instruments around which programs are designed and operating and capital expenditures are directed are the Community Vision, the General Plan, and the Citywide Strategic Plan. The City Council received *Visioning Riverside: A Report From the Community* on October 15, 2002. This document, the culmination of a seven-month community visioning effort, articulates the community's desired future for Riverside and, ultimately, the vision of where the community wants to be in the next ten to fifteen years.

Concurrently with the development of the community's long-range vision, the City embarked upon a community-driven strategic planning process. The purpose of the strategic planning process was to develop concrete short-term strategic goals and actions that would enable the city to incrementally, yet decisively, achieve its long-range vision. *Focusing on the Vision: Strategic Plan 2003/04* was approved by City Council on December 18, 2002. With processes that involved widespread community involvement, both the Community Vision and the Strategic Plan represent the City's commitment to enabling its residents to play a meaningful and proactive role in the development and future shape of the City.

If the Community Vision is a blueprint of our City's future, then the Citywide Strategic Plan is a roadmap that ensures we will arrive at our destination. This twin process of visioning and strategic planning allows elected officials, the community, and city employees to speak out on what they value in the community, what economic, social and environmental problems concern them, and what type of actions the City might take in order to afford a higher quality of life for all. The City's General Plan grounds this activity by guiding the city's land use and infrastructure development over the next ten to fifteen years.



GUIDE TO THE BUDGET: *Financial and Operational Policies*

THE OPERATING AND CAPITAL BUDGETS

One of the most significant financial management tools of a City is the annual budget process. The Annual Budget provides a legal basis for expenditures and a basis for control over municipal operations throughout the fiscal year. The City Charter mandates a budget be adopted prior to the beginning of the fiscal year.

The budget process furnishes department heads with an opportunity to justify departmental work programs, to propose changes in services, and to recommend revisions in organizational structure and work methods. It also enables the City Manager to review these aspects and make appropriate recommendations to the City Council.

Presentation of the budget to the City Council provides an opportunity to explain municipal programs and organizational structures. It also allows the Council to judge the adequacy of the proposed operating programs, to determine basic organizational and personnel staffing patterns and to establish the level of municipal services to be rendered with the available resources.

In order to accomplish these objectives, the annual budget must combine a detailed explanation of anticipated financial resources for the ensuing fiscal year with the proposed expenditures, supported by sufficient information on the proposed programs and activities to assess the appropriateness of the recommended levels of services.

The six-year Capital Improvement Program (CIP) enables the development of the Capital Budget. The CIP document brings together sufficiently detailed information to assess the future capital improvement needs of the community in the context of anticipated resources for both construction and operation of a facility or basic infrastructure. Its preparation permits the planning of capital improvements for various municipal operations for a six-year period, the continuing evaluation and implementation of the requirements of appropriate long-range master plans and special studies, and the improvement of timing and coordination of interrelated capital projects among various public and private agencies. It also provides most of the necessary capital improvement information for the next fiscal year's operating budget.

Departments with advisory boards and commissions have their respective advisory bodies review the CIP project requests and make recommendations pertaining to such requests to the City Manager's Office for inclusion in the CIP.

Midyear Review

Per the City Charter, Section 601 (d), the City Manager shall "keep the city council advised of the financial condition and future needs of the city and make such recommendations as may seem desirable to the city manager." In order to accomplish this mandate, the City's Administrative Policy #06.001.000 dictates that the City Manager shall annually present a mid-year fiscal review to the City Council between January and March.

GUIDE TO THE BUDGET: *Financial and Operational Policies*

Amending the Budget

At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative votes of at least five members so as to authorize the transfer of unused balances appropriated for one purpose to another purpose or to appropriate available funds not included in the budget.

Budget Transfers

The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department over the course of a fiscal year. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the department level within a fund.

Budgetary Control

The annual budget, as adopted by the City Council, establishes the total appropriation provided for each city department's operations. To ensure that the expenditures of each city department do not exceed the departmental appropriation, expenditures for each department are legally limited to the amounts authorized by the City Council in the budget document, plus subsequent changes individually approved by the City Council.

Within each section, expenditures are limited to those budgeted for each classification having a specific budget code account number within the major functional areas of personnel services, non-personnel expense, equipment outlay, special projects, and capital improvements. All expenditures must comply with the established purchasing procedures.

With approval from the Finance Director and the City Manager, department heads may transfer available funds between accounts under their jurisdiction. City Council approval is required for all transfers between departments or funds, and from Unappropriated Fund Balance or Contingency Reserves.

Continued Appropriations, or the Carryover Review Process

The City's Municipal Code states that all unexpended or unencumbered appropriations shall lapse at the end of the fiscal year, except for appropriations for capital projects that are required for the completion of the approved project. The City has established a carryover review process during which departments are requested to submit justification and funding sources for unencumbered, available funds requested for carryover. The final list of continued appropriations is adopted by the City Council in June and becomes part of the City's annual budget.

GUIDE TO THE BUDGET: *Financial and Operational Policies*

Proposition 4 (Gann Limit) Appropriation

Article XIII B of the California Constitution was added by the November 1979 passage of the Gann Initiative. This legislation mandated that the City must compute an annual appropriation limit that places a ceiling on the total amount of tax revenues the City can appropriate annually. The legislation also provides that the governing body shall annually establish its appropriations limit by resolution.

The appropriations limit is calculated by determining appropriations financed by proceeds of taxes in the 1978/79 base year and adjusting the limit each subsequent year for changes in the cost of living and population. This Appropriation Limit is the maximum limit of proceeds from taxes the City may collect or spend each year. Budgeted appropriations are limited to actual revenues if they are lower than the limit. The Appropriations Limit may be amended at any time during the fiscal year to reflect new data.

BUDGET DIRECTIVE, GUIDELINES, AND INSTRUCTIONS

Annual departmental budgets are developed in accordance with the City Manager's Budget Directive, Guidelines, and Instructions. Each year, the City Manager issues a budget development policy, or Budget Directive, which states the fundamental principles around which departmental budgets must be developed. This Directive changes from year to year depending on external exigencies, such as the national or local economy, or internal factors, such as organizational restructuring needs. The FY 2003/04 Strategic Budget Directive builds a budget around the following five precepts:

- ▶ The Budget contains sufficient resources to provide essential city services, as defined by City Charter, City Ordinance, state or federal requirements, in a high quality manner;
- ▶ The Budget contains sufficient resources to meet the requirements of the Citywide Strategic Plan, or other key reports;
- ▶ The Budget is driven by the principles of efficiency, effectiveness and results (as defined by performance measures, including citizen input, such as the Citizen Survey);
- ▶ The Budget demonstrates that we are delivering services in the most effective mode possible;
- ▶ The overall bottom line of the General Fund and Central Services Fund Budgets, respectively, is maintained at the same level as the prior year, with the exception of previously negotiated personnel increases.

Extensive budget guidelines are developed that help departments meet the requirements of this mandate, as well as shape the Office of Management and Budget's review of the departmental budgets. Finally, specific budgetary instructions and submittal schedules and forms are contained within a Budget Preparation Manual that is distributed to Department Heads and Budget Coordinators for each department.

GUIDE TO THE BUDGET: *Financial and Operational Policies*

GENERAL FUND PLANNING SCENARIO/ MEANS FOR FORECASTING REVENUES

The City's General Fund Planning Scenario (GFPS) projects the fiscal health of the City's General Fund and allows management to understand the fiscal gaps that may exist between revenue projections and projected expenditure requirements. In this way, policymakers can issue directives that range from maintaining the status quo to closing the gap between revenues and expenditures. The City Manager's Budget Directive is largely based on the information drawn from the GFPS data, as is the Midyear Budget Review.

Revenue estimates are prepared through an objective, analytical process based on year-to-date trends and three years prior data. In all instances, the City provides conservative revenue projections to prevent undue or unbalanced reliance on certain revenues, and ensure the ability to provide ongoing services. Among the factors included in the forecast are the outlooks for the national, state and local economies, the Consumer Price Index, Taxable Sales, and Building Permit Valuations.

MANAGED SAVINGS PROGRAM

Management is expected to be fiscally responsible with the City's allocated resources. Moreover, as part of its daily work, management is expected to continuously identify efficiencies and methods that would lead to significant improvements in services. In times of fiscal concern, management staff is called upon to identify savings they might accumulate by holding back expenditures in areas that would have the least impact on significant service areas. The resultant unencumbered balance is returned to the General Fund. Historically, two to three percent of the departmental budgets are saved each year as a result of these efforts.

ECONOMIC CONTINGENCY RESERVE

Since 2001, the City has annually earmarked 15 percent of the General Fund expenditure budget for an Economic Contingency Reserve (ECR). The ECR is intended to provide a cushion against possible fluctuations in revenue and/or emergency expenses, such as the current state budget crisis, or disaster relief.

CASH MANAGEMENT/INVESTMENT POLICIES

One of the City's highest fiscal management priorities is maintaining the safety of the principal of public investment. The City values its cash and investments in accordance with the provisions of Government and Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)", which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

GUIDE TO THE BUDGET: *Financial and Operational Policies*

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentations in the Statement of Cash Flows.

DEBT MANAGEMENT

The California Constitution requires that long-term debt pledged by the full faith and credit of the City can only be approved by voter referendum. Currently, the City carries no general obligation debt. However, per State of California statute, the City's debt limit is set at 15 percent of total assessed valuation for purposes of city taxation of all the real and personal property within the City. The City does carry bonded debt secured by specified revenue sources and special assessment debt for which the government is liable in the event of default by property owners subject to the assessment. The legal debt limit of the City as of July 1, 2003, compared with the general obligation bonded debt outstanding is estimated as follows:

Assessed valuation = \$12,102,831,390
Add: Home Owners Exemption = \$249,809,436
Assessed valuation for rate purposes = \$12,352,640,826
x 15% = \$1,852,896,124

Outstanding GO Debt Payable from Property Taxes	Ratio of Debt to Legal Limits	Debt per Capita
\$0	0.000%	\$0.0

RISK MANAGEMENT

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees, natural disasters, torts, among others. Internal service funds have been established to account for and finance the uninsured risks of loss. The City purchases commercial insurance for claims in excess of self-insured amounts. The City carries commercial issuance up to \$15,000 for general liability claims greater than \$750 per occurrence. Workers' Compensation insurance coverage is of an unlimited amount with a deductible of \$500 per occurrence. All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi-external transactions and are therefore recorded as revenues of the Internal Service Funds in the fund financial statements.